

*U.S. DEPARTMENT OF COMMERCE
Office of Inspector General*



*ECONOMIC DEVELOPMENT
ADMINISTRATION*

*Financial Assistance Programs'
Award Processes Promote
Merit-Based Selection Decisions
CFDA Nos. 11.300, 11.303-11.305, and 11.307*

Final Audit Report No. DEN-11580/December 2000

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
PURPOSE AND SCOPE	5
FINDINGS AND RECOMMENDATIONS	7
I. EDA Developed and Published Merit-Based Evaluation Criteria	7
II. EDA Solicitation Process Obtained a Nationwide Response	9
III. EDA's Review Process Needs Improvement	10
A. Procedures Designed to Result in a Merit-Based Review of Proposals	10
B. EDA Needs Better Documentation for the Review Process	12
C. EDA Regional Review Panels Do Not Rank Applications	13
D. EDA Regional Review Panels Would Benefit from Greater Independence	14
IV. EDA Should Have Competed National Technical Assistance Renewal Awards	16
V. Recommendations	16
VI. EDA's Response to Draft Audit Report	17
VII. OIG Comments on EDA's Response	18
APPENDIX I - EDA Procedures for Solicitation, Review, and Selection of Awards	
APPENDIX II - EDA Procedures for Solicitation, Review, and Selection of New National Technical Assistance Awards (Two-Stage Review)	
APPENDIX III - EDA Program-Specific Criteria for Fiscal Year 1997	
APPENDIX IV - EDA's Complete Response to the Draft audit Report	

EXECUTIVE SUMMARY

The Office of Inspector General conducted an audit of the fiscal year 1997 criteria, procedures and practices for soliciting, reviewing, and selecting applications for financial assistance under the Economic Development Administration's public works, technical assistance, and other economic development assistance programs, classified as Nos. 11.300, 11.303-11.305, and 11.307 in the Catalog of Federal Domestic Assistance (CFDA). The audit was conducted as part of a Department-wide review of Commerce's discretionary financial assistance programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation.

Discretionary financial assistance programs are programs for which federal agencies have the authority to independently determine the recipients and funding levels of awards. Collectively, awards under these programs involve a significant portion of the Commerce Department's budget and operations, approximately \$1 billion annually.

EDA was established under the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121) to generate new jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically-distressed areas of the United States. EDA financial assistance is available to rural and urban areas of the nation experiencing high unemployment, low-income levels, or sudden and severe economic distress.

EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration, the closure of military installations and other federal facilities, as well as sudden and severe economic dislocations, including recovering from the economic impacts of natural disasters.

In fiscal year 1997, EDA received more than 770 proposals from all 50 states, American Samoa, Guam, Micronesia, Puerto Rico, and Washington, D.C., and made a total of 657 awards under the five programs we reviewed. The following table summarizes the 657 financial assistance awards made by EDA in fiscal year 1997 under the five programs covered by this audit.

Schedule of FY 1997 EDA Financial Assistance Awards

Program	CFDA	Awards	Funding (\$ millions)
Public Works	11.300	190	\$160.2
Technical Assistance	11.303	145*	11.1
Public Works Impact	11.304	8	4.6
State and Local Development Planning	11.305	47	3.5
Special Economic Development Adjustment Assistance	11.307	267	159.8
Totals		657	\$339.2

* 130 regional awards and 15 National Technical Assistance awards.

Our audit found that EDA's criteria for reviewing award applications and its procedures and practices for soliciting award recipients generally complied with statutory, departmental, and EDA requirements and appeared designed to result in merit-based funding decisions. For example we found that EDA:

- Developed and published merit-based technical and public policy criteria, which were consistent with its mission and the objectives of the programs, to evaluate applications for financial assistance, as required by DAO 203-26, Sections 4.02a and b (see page 7).
- Exceeded the Department's minimum requirement that a notice be placed in the *Federal Register*, at least annually, announcing the availability of funds and soliciting award preapplications and applications, and specified the criteria and process to be used in reviewing and selecting applications for funding, as required by DAO 203-26, Section 4.02b. The solicitations and six regional conferences for current and prospective applicants were sufficient to obtain a nationwide response from more than 770 eligible applicants (see page 9).

We also identified opportunities for improving EDA's procedures and practices. Specifically, our audit further disclosed that EDA:

- Needs to improve its review and selection processes by having regional project review committees keep better minutes, retaining proposals that are rejected for funding for the required three-year period and ranking competing proposals for the Technical Assistance and State and Local Development Planning programs. (See page 10).
- Compromised the independence of the regional review process by allowing the six regional directors to chair the regional project review committees for preapplications and applications and also serve as selecting officials for their respective region's awards (see page 14).
- Awarded National Technical Assistance renewal awards without competition or adequate written justification for a noncompetitive awards (see page 16).

We recommend that the Assistant Secretary for Economic Development ensure that EDA improves the review and selection process for future economic development financial assistance recipients by:

1. Keeping better documentation of actions by regional project review committees and National Technical Assistance panels.
2. Retaining unsuccessful grant proposals for at least three years.

3. Ranking proposals for funding under the Technical Assistance and State and Local Development Planning programs, unless EDA can establish an appropriate basis for deviating from that practice.
4. Exploring opportunities to include individuals from outside the program area on project review committees, whenever possible.
5. Separating regional directors from the deliberative process and final decision-making function of project review committees.
6. Utilizing competitive review procedures for all National Technical Assistance program awards, unless there is adequate written justification for individual noncompetitive renewal awards, based on objective criteria developed to ensure worthiness for continued funding.

In response to the draft audit report's six recommendations, EDA agreed to our recommendations to keep better documentation of actions by regional project review committees and National Technical Assistance panels, retain unsuccessful grant applications for at least three years, and utilize competitive review procedures for all National Technical Assistance Program awards. EDA partially agreed with our recommendation to separate regional directors from the project review committees, but disagreed with our recommendations to rank proposals for financial assistance awards under each given program and include individuals from outside the program area on project review committees.

EDA's response indicates that the agency is willing to take certain actions that will significantly improve aspects of its awards processes and provided additional information that caused us to modify two of the draft report's recommendations. A summary of EDA's response begins on page 17 and the response is included in its entirety in Appendix IV. Our detailed comments on EDA's response to the draft audit report begin on page 18.

INTRODUCTION

The Economic Development Administration was established under the Public Works and Economic Development Act of 1965 (42 U.S.C. 3121) to generate new jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically-distressed areas of the United States. EDA assistance is available to rural and urban areas of the nation experiencing high unemployment, low-income levels, or sudden and severe economic distress.

EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration, the closure of military installations and other federal facilities, as well as sudden and severe economic dislocations, including recovering from the economic impacts of natural disasters. To accomplish a portion of its mission, EDA administered five programs described in the *Catalog of Federal Domestic Assistance* (CFDA) as Nos. 11.300, 11.303-11.305, and 11.307. The programs' objectives, as stated in the CFDA, include the following:

- To promote long-term economic development and assist in the construction of public works and development facilities needed to initiate and encourage the creation or retention of permanent jobs in the private sector in areas experiencing severe economic distress. (CFDA No. 11.300, Economic Development Grants for Public Works and Infrastructure Development)
- To promote economic development and alleviate under-employment and unemployment in distressed areas, EDA operates a technical assistance program. (CFDA No. 11.303, Economic Development - Technical Assistance)
- To promote long-term economic development and assist in providing immediate useful work (i.e., construction jobs) to unemployed and underemployed persons in designated project areas. (CFDA No. 11.304, Economic Development - Public Works Impact Program)
- To help states, substate planning units and/or local urban governments strengthen the economic development planning capability and formulate and establish comprehensive economic development plans designed to reduce unemployment and increase incomes. (CFDA No. 11.305, Economic Development - State and Local Economic Development Planning)
- To assist states and local areas develop and/or implement strategies designed to address structural economic adjustment problems resulting from sudden and severe economic dislocation, such as plant closings, military base closures and defense contract cutbacks, and natural disasters, or from long-term economic deterioration in

the area's economy. (CFDA No. 11.307, Special Economic Development and Adjustment Assistance Program - Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration)

General information governing the 1997 EDA award process was published in the *Federal Register*, Part IV, Volume 61, Number 246, dated December 20, 1996; Part VIII, Volume 62, Number 91, dated May 12, 1997; and Part II, Volume 62, Number 136, dated July 16, 1997.

EDA received more than 770 proposals from all 50 states, American Samoa, Guam, Micronesia, Puerto Rico, and Washington, D.C. The following table summarizes the 657 financial assistance awards made by EDA in fiscal year 1997 under the five programs covered by this audit.

Schedule of FY 1997 EDA Financial Assistance Awards

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Totals		657	\$339.2

* 130 regional awards and 15 National Technical Assistance awards.

Discretionary assistance programs are those for which federal agency officials have the authority to decide (1) which eligible applicants will receive awards, and (2) how much will be awarded. The use of competitive selection procedures has been determined to be the most effective method of ensuring that financial assistance awards are made on the basis of merit. One of the primary purposes of the Federal Grant and Cooperative Agreement Act (31 U.S.C. §6301 et seq) is to encourage competition in the award of federal financial assistance to the maximum extent practicable in order to fairly and objectively identify and fund, based on merit, the best possible projects proposed by applicants, and thereby more effectively achieve program objectives.

The Office of Management and Budget (OMB) has issued guidelines on administering competition-based financial assistance programs for use by federal agencies. An interagency study group, convened in 1979 by OMB to examine competition in financial assistance programs, determined that financial assistance award processes, to ensure effective competition, should include three basic elements. These elements, which were discussed in OMB's June 1980 report, *Managing Federal Assistance in the 1980's*, and are still applicable, include:

- Widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations;
- Independent application reviews that consistently apply written program evaluation criteria; and
- Written justifications for award decisions that deviate from recommendations made by application reviewers.

Also, OMB has issued the following circulars which, set forth the policies and procedures to be followed in administering financial assistance programs:

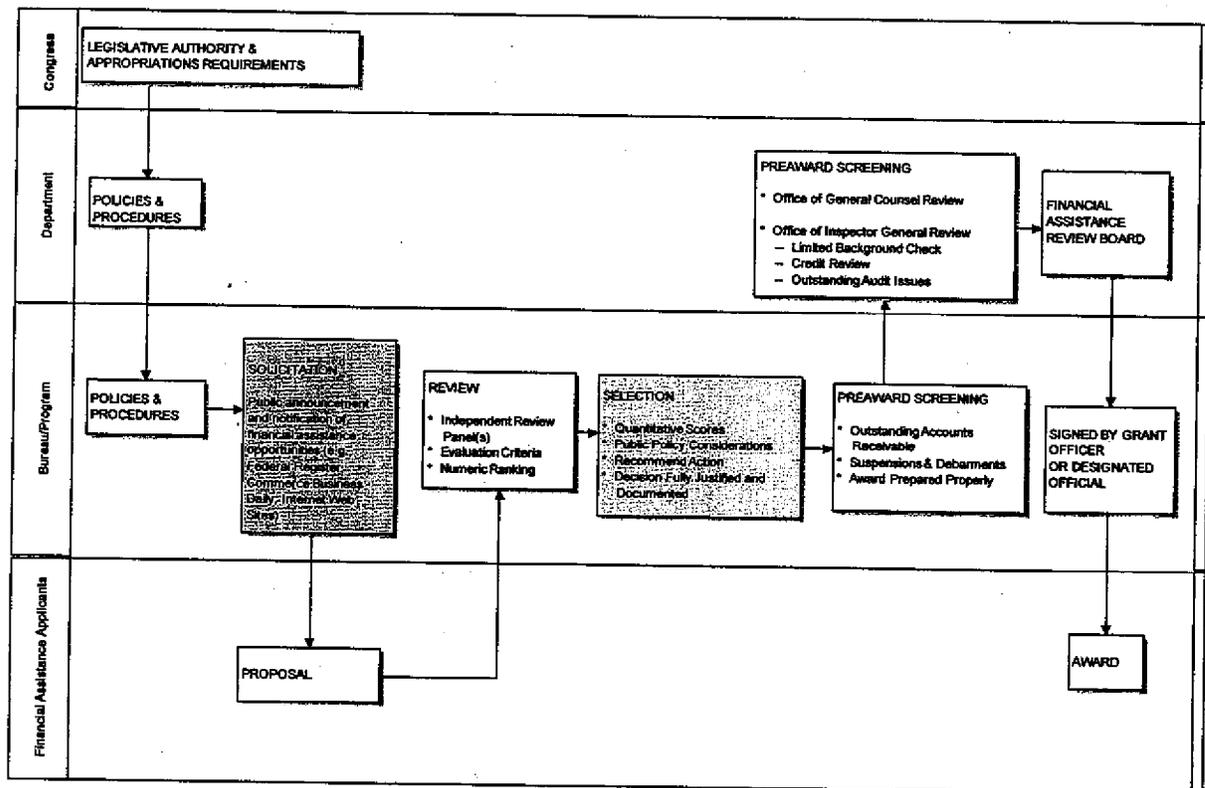
- OMB Circular A-89, *Federal Domestic Program Information*, implements the Federal Program Information Act (P.L.95-220) requiring agencies to systematically and periodically collect and distribute current information to the public on federal domestic assistance programs, which is accomplished through the semiannual publication of the CFDA.
- OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, requires agencies to provide the public with advance notice in the *Federal Register*, or by other appropriate means, of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute. Under A-102, when time permits, an agency must provide the public with an opportunity to comment on funding priorities. Finally, A-102 requires all grant awards over \$25,000 to be reviewed for consistency with agency priorities by a policy level official.
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires agencies to provide the public with advance notice of their intended funding priorities for discretionary assistance programs unless such priorities are established by federal statute.
- OMB Circular A-123, *Management Accountability and Control*, implements the Federal Managers' Financial Integrity Act (P.L. 97-255) requiring agencies to establish management controls for federal programs and operations, including financial assistance programs, that provide reasonable assurance that activities are effectively and efficiently managed to achieve agency goals.

Commerce has relied on these guidelines and circulars in developing and issuing policies and procedures for its discretionary funding programs. Department Administrative Order (DAO) 203-26,

Department of Commerce Grants Administration, requires that (1) all Commerce financial assistance awards be made on the basis of competitive reviews unless a special waiver is obtained, (2) competitive review processes meet minimum standards outlined in the DAO, and (3) all Commerce agencies publish, at least annually, a notice in the *Federal Register* announcing the availability of funding, soliciting award applications, and specifying the criteria and the process to be used in reviewing and selecting applications for funding.

The chart below depicts the process and controls for the solicitation, evaluation, and selection of financial assistance awards as set forth in DAO 203-26. The processes we reviewed during our audit are color coded to correlate with the EDA process charts located in Appendix I (regional programs) and Appendix II (National Technical Assistance Program.)

Department of Commerce Financial Assistance Awards Process



PURPOSE AND SCOPE

This audit was conducted as part of a comprehensive review of the Department of Commerce's discretionary funding programs initiated at the request of the Chairman of the Senate Committee on Commerce, Science, and Transportation. The Chairman requested that the Inspectors General of the Departments of Commerce and Transportation and the National Science Foundation review the discretionary funding programs of their respective agencies to assess the manner in which discretionary funding decisions are made. More specifically, the Chairman requested that each IG review and report on the criteria developed, either statutorily or administratively, to guide agency officials in making discretionary spending decisions, and on the extent to which the criteria are appropriately applied.

We conducted our Department-wide review in two phases: a survey phase, and an individual program audit phase. During the survey phase, we identified and examined the body of laws, regulations, and other guidance applicable to the administration of federal financial assistance programs. We also examined the authorizing legislation for each Commerce financial assistance program and classified each program as either a "full discretion" program or a "limited discretion" program, based on the extent to which the legislation limits the agency's authority to independently determine the recipients and funding levels of the awards made under the program. Finally, we examined fiscal year 1997 appropriations legislation to identify any legislatively mandated projects. None were found.

During the second phase of our review, we conducted individual audits of the award solicitation, review, and selection processes of each program we have classified as a "full discretion" program, including the five EDA programs discussed in this report. We evaluated the adequacy of each program's established award criteria and procedures for evaluating individual applications. For those programs with procedures deemed to be adequate, we ascertained whether those procedures were followed in making awards in fiscal year 1997. For those programs with procedures considered to be inadequate or lacking, we reviewed how fiscal year 1997 award decisions were made. Finally, we examined the legislatively mandated projects identified for each program and determined their significance and impact on fiscal year 1997 award decisions. We issued individual reports, with any appropriate recommendations on the programs, followed by a capping report that summarized the results of the individual audits and provided recommendations for the Department and/or its bureaus.

This performance audit covered all awards made by EDA under CFDA Nos. 11.300, 11.303-11.305, and 11.307 during fiscal year 1997. Since EDA used the same process to solicit, review, and select almost all of the proposals for these five programs, we have combined these five programs into a single audit report. Specifically, we:

- Reviewed the authorizing legislation: the Public Works and Economic Development Act of 1965, as amended; and information summarized in the 1997 CFDA to identify criteria for funding decisions.

- Reviewed EDA's policies and procedures for soliciting and reviewing proposals and selecting applications for funding (see Appendix I for a flowchart of the process). We also reviewed EDA's policies and procedures as they applied to the solicitation, review, and selection process and assessed whether they were in accordance with Office of Federal Assistance Financial Assistance Notice No.17, *Department of Commerce Guidelines for Preparation of Federal Register Notices Announcing the Availability of Financial Assistance Funds -- Requests for Applications*; 13 C.F.R. Chapter III, Economic Development Administration, Department of Commerce; and DAO 203-26, *Department of Commerce Grants Administration*.
- Compared EDA's procedures with its award practices for fiscal year 1997 to determine if the process contained adequate internal controls to provide for competitive, merit-based awards.
- Interviewed EDA program and regional office officials concerning EDA's solicitation, review, and selection procedures in fiscal year 1997.
- Examined fiscal year 1997 appropriations legislation to identify legislatively mandated projects for EDA programs.
- Reviewed a 1986 U.S. General Accounting Office (GAO) audit report on discretionary funding programs.

We did not rely upon computer-based data supplied by EDA and the Department's Office of Executive Assistance Management during the audit as a basis for our audit findings and recommendations. Consequently, we did not conduct tests of either the reliability of the data or the controls over the computer-based system that produced the data.

We conducted our audit fieldwork from December 1998 through February 1999 at EDA headquarters in Washington, D.C., and the six EDA regional offices (Atlanta, Austin, Chicago, Denver, Philadelphia, and Seattle). We conducted the audit in accordance with generally accepted government auditing standards, and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

FINDINGS AND RECOMMENDATIONS

We found that EDA's criteria for reviewing award applications and its procedures and practices for soliciting award recipients generally complied with statutory, departmental, and EDA requirements and appeared designed to result in merit-based funding decisions. EDA developed and published adequate merit-based evaluation criteria and its efforts to solicit applications for fiscal year 1997 exceeded the Department's minimum requirements and generated a nationwide response from more than 770 eligible applicants.

However, while the criteria used by EDA to review applications generally complied with the applicable requirements, its review and selection procedures and practices did not fully comply with departmental requirements. Although applications generally appeared to receive a qualified review based on written evaluation criteria stated in the application notice, EDA needs to improve its review and selection processes by having project review committees keep better minutes, retaining proposals that are rejected for funding for the required three-year period, and ranking competing proposals under the Technical Assistance and State and Local Development Planning programs unless there is an appropriate basis from deviating from that requirement. Moreover, the project review committees in EDA's six regions lacked independence since they each consisted entirely of EDA regional office staff and the regional director, who was also the selecting official. Finally, EDA awarded National Technical Assistance renewal awards without competition or adequate written justifications for noncompetitive awards.

I. EDA Developed and Published Merit-Based Evaluation Criteria

EDA officials developed and published general criteria, fiscal year priorities, and program-specific evaluation criteria for each of the five programs we reviewed, which were adequate and designed to result in merit-based funding decisions for fiscal year 1997. The applicable criteria were published in three announcements in the *Federal Register*, Part IV, Volume 61, Number 246, dated December 20, 1996; Part VIII, Volume 62, Number 91, dated May 12, 1997; and Part II, Volume 62, Number 136, dated July 16, 1997. The three *Federal Register* announcements consisted of a general announcement for all programs (CFDA Nos. 11.300, 11.303 - 11.305, and 11.307) in December 1996, supplemented by a May 1997 announcement for the National Technical Assistance Program (part of CFDA No. 11.305) and a July 1997 announcement for flood, tornado, and other natural disaster assistance.

General evaluation criteria for fiscal year 1997 applications

General criteria for fiscal year 1997, incorporated by reference in the *Federal Register*, dated December 20, 1996, stated that all proposals and applications would be screened for the following:

- conformance to statutory and regulatory requirements,
- relative severity of the economic problem of the area,
- quality of the scope of work proposed to address the problem,
- merits of the activity(ies) for which funding is requested, and
- ability of the prospective applicant to carry out the proposed activity(ies) successfully.

Department of Commerce fiscal year 1997 priorities

For fiscal year 1997, EDA published a notice in the *Federal Register*, dated December 20, 1996, stating that the agency was interested in receiving projects that supported the priorities of the Department, including:

- Export promotion;
- The commercialization and deployment of technology;
- Sustainable development that provides long-term economic development benefits, including responses to economic dislocation caused by national environmental policies (hazardous waste clean-up, etc.);
- Entrepreneurial development, especially local capacity building, small business incubators, and community financial intermediaries (e.g., revolving loan funds);
- Economic adjustment, especially in response to military base and federal laboratory closures and downsizing, defense industry downsizing, and post-disaster, long-term economic recovery;
- Infrastructure and development facilities located in federally-authorized and designated rural and urban Enterprise Communities and Empowerment Zones and state enterprise zones;
- Projects that demonstrate innovative approaches to economic development; and/or
- Projects that support locally-created partnerships that focus on regional solutions for economic development that are more limited in scope.

Program-specific evaluation criteria

In addition to the general criteria and the Department's fiscal year 1997 priorities, EDA incorporated program-specific criteria in the *Federal Register*, dated December 20, 1996; May 12, 1997; and July 16, 1997, for the public works (CFDA No. 11.300), technical assistance (CFDA No. 11.303), public works impact (CFDA No. 11.304), state and local economic development planning (CFDA No. 11.305), and special economic development and assistance (CFDA No. 11.307) programs. (see Appendix III.).

Based on our review, the general criteria, fiscal year priorities, and program-specific evaluation criteria developed and published by EDA were consistent with the objectives of EDA programs and complied with the statutory provisions for making awards as required by DAO 203-26. Accordingly, we conclude that the criteria were adequate and designed to result in merit-based funding decisions for fiscal year 1997.

II. EDA Solicitation Process Obtained a Nationwide Response

EDA's procedures and practices for soliciting applications for fiscal year 1997 awards were sufficient to obtain a nationwide response from at least 770 eligible applicants. EDA's widespread solicitation of eligible applicants exceeded the Department's minimum requirements and generated responses from all 50 states, American Samoa, Guam, Micronesia, Puerto Rico, and Washington, D.C. EDA made awards to 657 applicants submitting a proposal (see Appendices IV-VIII for lists of funded awards).

DAO 203-26, section 4.02, lists required solicitation procedures for competitive grant programs. These procedures were designed to ensure widespread public notification to the interested public. Section 4.02 provides the following solicitation criteria, in part:

- Annual Public Notice. To inform the interested public, each organizational unit shall publish at least annually a notice in the *Federal Register* that includes basic information for each discretionary grant program.
- Other Solicitations of Applications. Additional notice(s) in the *Federal Register* or other publications soliciting applications or preapplications must include information published in the annual public notice.
- Minimum Notice. In order to provide the public reasonable notice, there must be a minimum of 30 days between the date of publication and the closing date for receipt of applications.

In addition, the DAO states in section 4.02.f: "To ensure widespread notification to the public, program officials are strongly encouraged to use publications in addition to the *Federal Register*, which, in their opinion, have a wide distribution among interested persons."

In fiscal year 1997, EDA used three *Federal Register* announcements soliciting eligible applicants and projects for its programs. Also, each of the six EDA regional offices conducted annual regional conferences for current and prospective applicants. The EDA regional conferences typically lasted two days and included discussions on eligibility requirements for EDA programs, the application process, and the availability of funding. Applicants had an opportunity to meet with EDA regional and headquarters officials and have any of their questions answered. In addition, EDA maintains an Internet site (www.doc.gov/eda) with program and application information. EDA also used brochures and specialized periodicals such as *Programs of the Economic Development Administration, Facing The Economic Challenges Of Today For A Better Tomorrow*, to provide project information to potential applicants. Finally, we were advised that several trade associations' newsletters carried announcements of the availability of EDA funding, eligibility requirements, and application procedures.

We concluded that EDA's solicitation methods were extensive, exceeded the Departments' minimum requirements, and satisfied the objective of an open and fair solicitation process.

III. EDA's Review Process Needs Improvement

While the criteria developed and used by EDA to review applications generally complied with statutory, departmental, and EDA requirements and was designed to result in a merit-based review of proposals, EDA's application review and selection procedures and practices did not fully comply with departmental requirements. Specifically, there is a need for EDA to better document its review and selection processes by having project review committees keep better minutes, and to retain proposals that are rejected for funding for the required three-year period. In addition, the project review committees in the six regions did not rank proposals, as required by departmental policy, and lacked independence since they each consisted entirely of EDA regional office staff and the regional director, who was also the selecting official.

A. Procedures Designed to Result in a Merit-Based Review of Proposals

In the *Federal Register* notices for 1997 proposals, EDA incorporated by reference its regulations, 13 CFR Part III, which set forth the application, review, and selection process; general criteria or eligibility requirements; Department of Commerce fiscal year 1997 priorities; and program-specific evaluation criteria for each grant program. EDA used two different procedures for reviewing proposals: In the six regions, EDA project review committees used the published criteria to evaluate individual proposals on a continuous year-round basis. At headquarters, independent review panels including reviewers from outside the Department, rated and ranked all proposals for new awards under the National Technical Assistance Program in a single competition.

DAO 203-26, Section 4.02h.1, sets forth the minimum requirements for the competitive review process:

- Applications are reviewed only when submitted in response to a notice in the *Federal Register* or other publication.
- Applications should be treated fairly.
- Applications should receive an independent, objective review by one or more review panels qualified to evaluate the applications.
- Review panels consist of at least three persons and may include one or more individuals who are not employees of the federal government.
- Review panels should use the selection criteria covered by the application notice.
- Organizational units should prepare a rank order of applications based solely on the evaluation by the review panels.
- Organizational units should determine the order in which the applications are selected for funding based on:
 - (1) any priorities or other program requirements published in the *Federal Register* that apply to the selection of applicants for new awards, and
 - (2) the rank order of applications established by the review panel on the basis of the selection criteria.

EDA has incorporated many, but not all, of the Department's minimum requirements into its application, review, and selection process. EDA has established a streamlined and uniform review and selection process based upon a short proposal and standardized application form with attachments as applicable for each particular program. The process uses uniform evaluation criteria for all programs, as well as program-specific evaluation criteria. The review and selection process begins with the applicant submitting a brief proposal for each program (OMB-approved form number 0610-0094) and a standard application, including any additional program-specific attachments.

For the regional reviews of proposals for planning, public works, most technical assistance and the special economic development and adjustment assistance grants, specific application and review practices were as follows:

- Applicants may make their initial contact with EDA through an economic development representative (EDR) or regional office staff member, who will provide assistance in completing the proposal form.
- Proposals are submitted through EDRs or regional office staff. All proposals are reviewed by a regional office Project Review Committee (PRC), consisting of at least three EDA officials. Generally, an EDR will evaluate proposals before submitting them to the EDA regional office for review. However, the EDR does not have the authority to reject proposals. Thus, all proposals received by an EDR are forwarded to the PRC for review.
- PRC decisions are communicated in writing to the applicants. The three possible dispositions of proposals are: (1) the applicant is invited to submit a full application; (2) the applicant's proposal is returned because of specified deficiencies, which can be corrected and resubmitted to the PRC; or (3) the proposal is denied for a specified reason.
- Generally, full applications are to be submitted within 30 days after receipt of an invitation letter. The regional office staff reviews all applications to ensure that all legal, regulatory and programmatic requirements are met before referring all suitable applications to the regional director, who serves as the selecting official.
- The regional director makes the final selection of applications for award.

For the National Technical Assistance Program, headquarters review panels use a three-phase review, similar to the regions. A review panel evaluates each proposal and makes a decision to invite a full application or reject the proposal. Then the review panel rates and ranks the full applications and recommends applications for funding to the selecting official, the Deputy Assistant Secretary for Program Research and Evaluation, who makes the final award selections.

B. EDA Needs Better Documentation for the Review Process

While EDA review procedures are generally designed to result in merit-based funding decisions, the documentation for the review of proposals could be improved. The documentation for the PRC review process lacked essential elements for a complete record of its decision making, including both an absence of sufficiently detailed records during the proposal evaluations and a failure to maintain records after the evaluations were completed. As a result of the deficiencies, EDA cannot provide adequate assurance that the evaluation criteria were appropriately applied, or that the awards made by the respective programs represent the best and most effective means of achieving program objectives.

For the regional programs, we found that:

- None of the regional offices maintained any recorded votes of committee decisions.
- The Philadelphia regional office did not keep written project review committee minutes for fiscal year 1997. However, the region began keeping minutes in fiscal year 1998.
- The Atlanta, Austin, and Denver regional offices did not include the names or titles of any participants in project review committee deliberations. Without a list of attendees, it is difficult to determine who participated in committee decisions.
- None of the regional offices retained copies of rejected proposals for three years as required by the National Archives and Records Administration general records schedule for unsuccessful grant applications. Since 1978, use of the general records schedule has been legally mandated. Because the rejected proposals were not retained, it is not possible to determine if EDA funded the best projects.

For the EDA headquarters controlled National Technical Assistance Program, we found that EDA did not:

- Document that required standard forms and other elements of the application were present and that reviewers addressed the published evaluation criteria.
- Require review panels to complete written score sheets.
- Retain written evaluations of the reviewers for each proposal.

We believe that improvements are needed in documentation of the review process. The improvements would increase confidence in the objectivity of the decision-making process.

C. Regional Review Panels Do Not Rank Applications

None of the regional offices rank proposals on the basis of review panel evaluations, as required by departmental policy. DAO 203-26, section 4.02h.1, sets forth the minimum requirements for the competitive review process, one of which is the requirement that the organization determine the order in which proposals be selected or considered for funding. The requirements state, in part as follows:

- Organizational unit should prepare a rank ordering of applications based solely on evaluations by the review panel.

- Organizational unit should determine the order in which the applications will be selected for funding based on:
- (1) any priorities or other program requirements published in the *Federal Register* that apply to the selection of applicants for new awards, and
 - (2) the rank order of applications established by the review panel on the basis of selection criteria.

EDA contends that its process of working closely with local development groups to develop Comprehensive Economic Development Strategies (CEDS), and the continuous, year-round evaluation process used to implement this approach, renders it both unnecessary and impractical for regional offices to rank funding proposals. Participation in the CEDS process is a prerequisite for certain types of funding under EDA's current authorizing legislation, which also provides a comprehensive statutory framework and detailed criteria for financial assistance eligibility. According to EDA, not only does this approach not lend itself to a one-time, head-to-head competition among proposals, but the local review process provides for a competitive evaluation of the relative impact of individual projects on the overall local strategy that compensates for the lack of a formal ranking process. In addition, it appears that the extended developmental phase of construction projects proposed for funding under EDA discretionary grant programs may necessitate some type of rolling evaluation process. Indeed, departmental officials recognize that construction projects present unique grants administration issues, and there is a chapter in the draft grants manual specifically reserved to address that area.

While the scrutiny of the CEDS process may provide an acceptable alternative to ranking proposals in the EDA review process, it is important to note that the CEDS process does not encompass all financial assistance programs and project categories funded by EDA. Proposals for technical assistance and state and local development planning projects are not subject to the CEDS process and, consequently, do not lend themselves to EDA's argument that ranking proposals is unnecessary and impractical. Because no appropriate basis for deviating from the rank ordering requirement exist, and more importantly, because funding resources are limited, regional offices should rank order technical assistance and planning proposals to better ensure that projects receive funding in an order of priority that relates directly to the overall merit of the project and goals of the programs.

D. EDA Regional Review Panels Would Benefit from Greater Independence

DAO 203-26, Section 4.02h.1.(c) and (d) requires that each grant application receive an independent, objective review by a qualified review panel consisting of at least three persons, which may include one or more persons who are not federal employees. In fiscal year 1997, all the members of the regional PRCs were regional office employees and each PRC was chaired by the local EDA regional director, who also served as the selecting official. As a result, none of the PRC staff panelists in the six regional

offices can be considered completely independent since they all were involved in the administration of the program and reported directly to the regional director. Compounding this appearance of a lack of independence was the fact that the selecting official was also a PRC review panel member. In contrast, the two headquarters review panels for the National Technical Assistance Program used reviewers from outside the department and did not include the selecting official on the review panel. And finally, we note that officials administering EDA's Research and Evaluation Program (CFDA No. 11.312) agreed that in that program, the use of knowledgeable outside reviewers to evaluate proposals provided an independent perspective and enhanced the objectivity of the merit-based selection process.¹

EDA Does Not Utilize Outside Reviewers In Regional Offices

EDA relies exclusively on internal program staff for reviews conducted by its six regional offices. This practice raises questions as to the level of independence of the various review panels. Although the term "independent reviewers" is not clearly defined in DAO 203-26, which governs grant administration, the Department's Office of Executive Assistance Management (OEAM) had at one time provided guidance to another discretionary grant program that individuals associated with the management or administration of a program cannot be considered independent reviewers of project proposals for that program. However, according to OEAM, the draft Department of Commerce Grants and Cooperative Agreements Manual is expected to require selection of reviewers on the basis of their professional qualifications and expertise, but will allow review panels to include individuals from within the cognizant program office. The manual will, however, encourage—as a best practice—the use of one member who is outside the chain of command of the selecting official on review panels, whenever possible.

Need for EDA to Separate Regional Directors from PRCs

Each of the six EDA regional directors chaired the PRC proposal reviews while also serving as the sole selecting official in the region. These dual duties conflict with the basic internal control concept of separation of duties, which would require that the selecting official not be involved in the review of applications for the purpose of determining whether to recommend the application for approval. As a result, EDA should separate its regional directors from the PRCs.

¹ *EDA Research and Evaluation Program Funding Decisions Should Be Documented*,
OIG Final Audit Report No. BTD-11548-9-0001, September 1999.

IV. EDA Should Have Competed National Technical Assistance Renewal Awards

In fiscal year 1997, EDA renewed 12 awards, referred to as "Information Dissemination" awards, through its National Technical Assistance (NTA) program, which is an integral part of CFDA No. 11.303, Economic Development-Technical Assistance. The 12 renewals, totaling nearly \$1.2 million, were made noncompetitively. Moreover, the initial awards, made over a thirteen-year period from 1983 to 1996, were made noncompetitively as a result of unsolicited proposals. DAO 203-26, Section 3.32, states that unsolicited proposals are applications for financial assistance which are not received as a result of a direct solicitation in the *Federal Register*, *Commerce Business Daily*, or other publication. The DAO further states in Section 4.02 h.1.(i) that "no unsolicited proposal may be funded outside the competitive process if that proposal is one which falls within the program goals of a competitive program." Among the objectives listed in the 1997 CFDA for the Economic and Development-Technical Assistance program is the dissemination of information and studies of economic development issues of national significance. The 12 renewal awards made under the NTA program seem to clearly fall within the published goals of the program and, consequently, should have been competed.

Compounding the lack of competition for the 12 NTA renewal awards was the fact that EDA did not have criteria and procedures in place for assessing a renewal project's worthiness for continued funding. EDA had no procedures requiring reviews of the awards for their past program or financial performance, and as result, the grant files of the respective awards did not contain a basis for renewal or a justification for the continuation of a non-competitive award.

V. Recommendations

We recommend that the Assistant Secretary for Economic Development ensure that EDA improve the review and selection process for future economic development financial assistance applicants by:

1. Keeping better documentation of actions by regional project review committees and National Technical Assistance panels.
2. Retaining unsuccessful grant proposals for at least three years.
3. Ranking proposals for funding under the Technical Assistance and State and Local Development Planning programs, unless EDA can establish an appropriate basis for deviating from that practice.
4. Exploring opportunities to include individuals from outside the program area on project review committees, whenever possible.

5. Separating regional directors from the deliberative process and final decision-making function of project review committees.
6. Utilizing competitive review procedures for all National Technical Assistance program awards, unless there is adequate written justification for individual noncompetitive renewal awards, based on objective criteria developed to ensure worthiness for continued funding.

VI. EDA's Response to the Draft Audit Report

In response to the draft audit report's six recommendations, EDA agreed to our recommendations to: (1) keep better documentation of actions by regional project review committees and National Technical Assistance panels, (2) retain unsuccessful grant proposals for at least three years, and (3) utilize competitive review procedures for all National Technical Assistance Program awards. EDA partially agreed with our recommendation to separate regional directors from the project review committees, but disagreed with our recommendations to rank proposals for financial assistance awards under each program and include individuals from outside the program area on project review committees.

EDA disagreed with our draft audit recommendation that it rank proposals for financial assistance awards under each program, unless the agency can establish an appropriate basis for deviating from the practice on a program-by program basis. EDA believes that its process of working closely with local development groups and developing Comprehensive Economic Development Strategies provides a more rigorous approach than "ranking" proposals for financial assistance, since projects are first evaluated by all parties on their potential positive impact in the overall economic development strategy.

EDA also disagreed with our draft audit report recommendation to include individuals from outside the program area on project review committees. EDA stated that its process begins with a very comprehensive and effective independent competitive project review by individuals outside the program area when local representatives evaluate projects as part of the Comprehensive Economic Development Strategies process. EDA also cited the fact that, unlike other grant programs where there are one or two project selection competitions a year, EDA conducts Project Review Committees (PRCs) almost every week during the year. EDA believes that it would be unreasonable to expect an outside reviewer to commit to voluntarily serving on its PRCs every week, with hours of time spent reading project proposals and attending the meeting, without compensation, because EDA does not have the administrative resources to reimburse outside reviewers for their time.

EDA agreed in part with our draft report recommendation that the regional directors be separated from the project review committees. While EDA agreed that the formal review process should segregate the regional directors from the PRC's final decision-making on which proposals to recommend for funding, EDA believes that the regional directors should continue to be present for the general PRC discussions of the relative merits of the proposals before PRCs begin their recommendation decision discussions.

EDA believes that this is important because regional directors gain a more comprehensive understanding of the merits, shortcomings, and issues associated with each proposal when they are present from PRC discussions.

EDA agreed with our draft audit report recommendation to utilize competitive review procedures for all National Technical Assistance Program awards and, effective in fiscal year 2000, expanded the competitive selection process for NTA to include Information Dissemination projects. EDA disagreed, however, with the observation in the draft report that it had no procedures requiring reviews of the awards for their past program or financial performance, and as a result, the grant files of the respective awards did not contain a basis for renewal or a justification for the continuation of a non-competitive award. EDA stated that under its established procedures, the project brief included in the grant files for each EDA award contains the information that our draft report states is needed in the grant files.

EDA further stated in its response to the draft audit report that DAO 203-26, *Department of Commerce Grants Administration*, does not apply to it because its own grant-making authority issued by the Secretary under DOO 10-4 takes precedence. EDA contends that DAO 203-26 applies to those programs for which the Assistant Secretary for Administration is the grants officer, which does not include EDA, although EDA complies with the policies, standards, and procedures of the DAO to the extent that they are consistent with its mission.

Finally, EDA offered several comments on specific portions of the report that it believed required clarification or correction.

EDA response is included in its entirety in Appendix IV.

VII. OIG Comments on EDA's Response

EDA's response indicates that the agency is willing to take certain actions that will significantly improve aspects of its awards processes and provided additional information that caused us to modify one of our original recommendations.

EDA makes a convincing argument that it may not be practical or necessary for regional offices to rank order proposals that are part of the local Comprehensive Economic Development Strategy process. However, we are not convinced that there is a good basis for excluding the Technical Assistance and State and Local Development Planning programs from the practice of ranking. Consequently, we have modified our original recommendation on this issue to reflect the soundness of EDA's rationale for not rank ordering proposals that are submitted as part of the CEDS process, while underscoring the need for EDA not to categorically exclude all EDA financial assistance programs from the practice of rank ordering without an adequate basis.

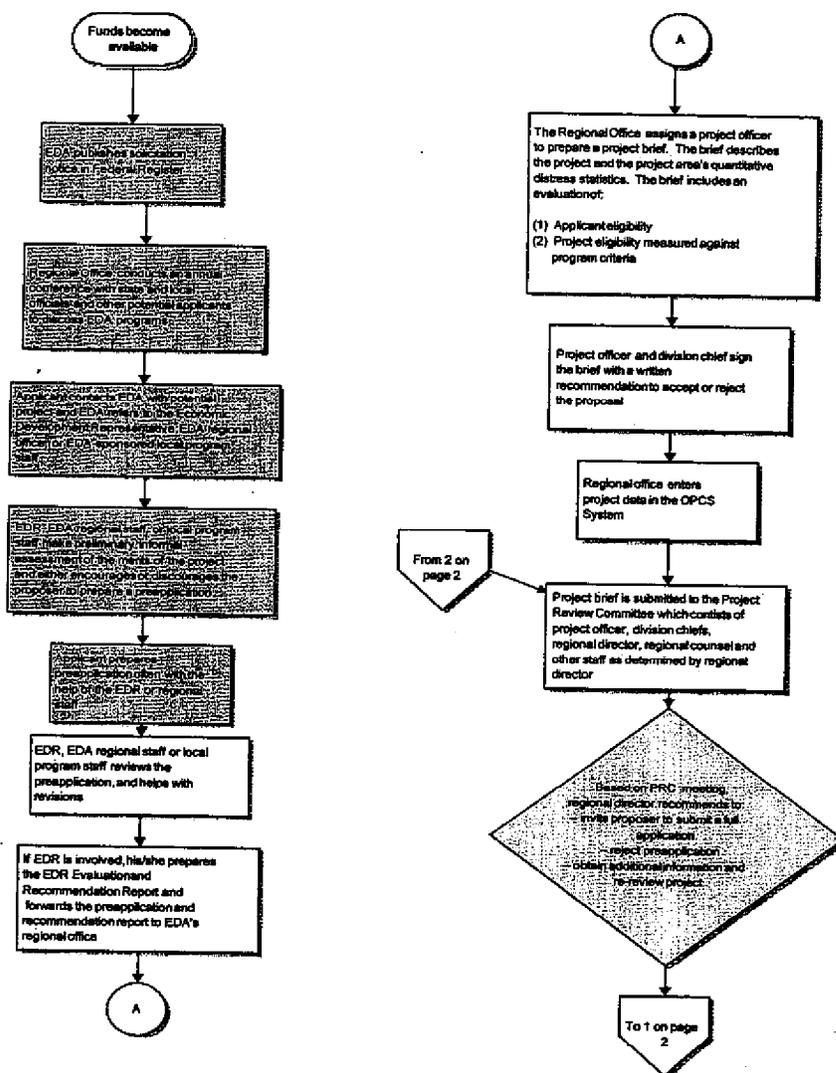
After careful review and analysis of EDA's response, we still believe that the independence of a review panel is heightened by the use of reviewers outside of the chain of command of the selecting official and that this is generally recognized as a "best practice" in the financial assistance award process. By the same token, we recognize that there are obstacles that may be encountered by certain programs such as EDA's in attempting to utilize reviewers from outside the program area. The Department has also recognized this reality in its development of the draft grants manual. Consequently, we have modified our draft report recommendation to acknowledge the obstacles encountered by EDA, while still encouraging the agency to strive toward a more independent review panel by exploring opportunities to utilize outside reviewers whenever possible.

From a practical viewpoint, we do not object to EDA's idea that the regional directors be present for the general discussions on award proposals, as long as the PRC *independently* finalizes its recommendations and submits those recommendations, with supporting rationale, to the regional director. The regional director can then make the final decision as to which project applications to invite or deny. Accordingly, we have retained our original recommendation on this issue with a slight modification.

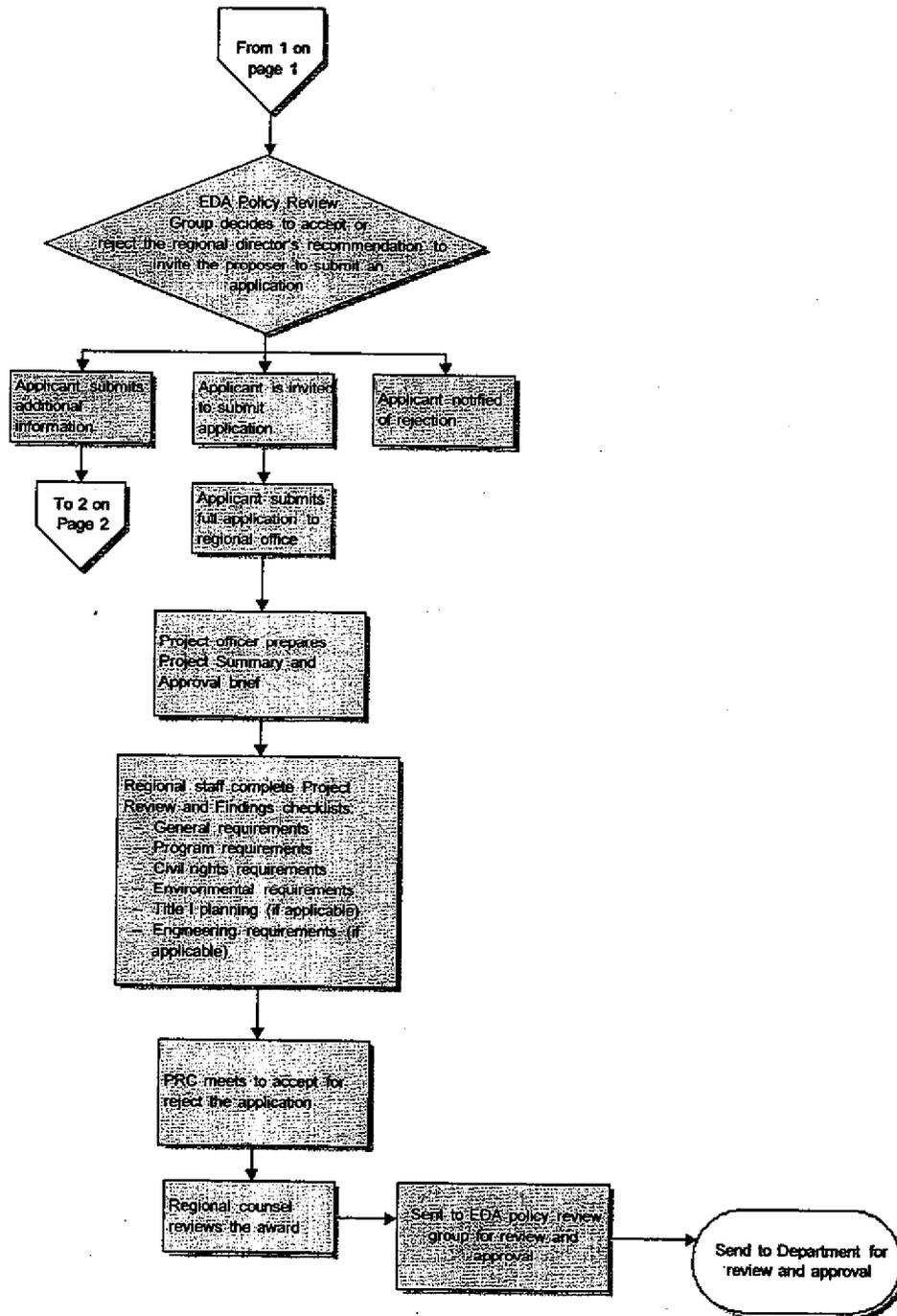
EDA questioned our observation that it had no written procedures requiring reviews of the National Technical Assistance Program awards in fiscal year 1997. During the audit we saw no evidence that EDA procedures required reviews of NTA non-competitive awards for past program or financial performance, nor did the project briefs we reviewed contain a sufficient basis for renewal or a justification for the continuation of a non-competitive award. Regardless, EDA has agreed to our recommendation to utilize competitive review procedures for all NTA awards, including Information Dissemination projects.

Finally, we disagree with EDA's position that it is exempt from the provisions of DAO 203-26, which, by its own terms, is applicable to *all* Commerce organizational units in the award and administration of financial assistance. Moreover, DOO 10-4 that EDA claims takes precedence over DAO 203-26 is just one of several similar DOOs outlining the organizational structure of various Commerce bureaus. The delegation of authority it contains is likewise a standard delegation from the Secretary of Commerce to the head of the agency, and makes no special provision for grant-making authority that would suggest that EDA is exempt from DAO 203-26. Furthermore, the Department's Office of Executive Assistance Management, the office responsible for grant administration policy, confirmed that EDA was not exempt from the provisions of DAO 203-26. In any event, however, resolution of this issue is not critical to the findings of our audit.

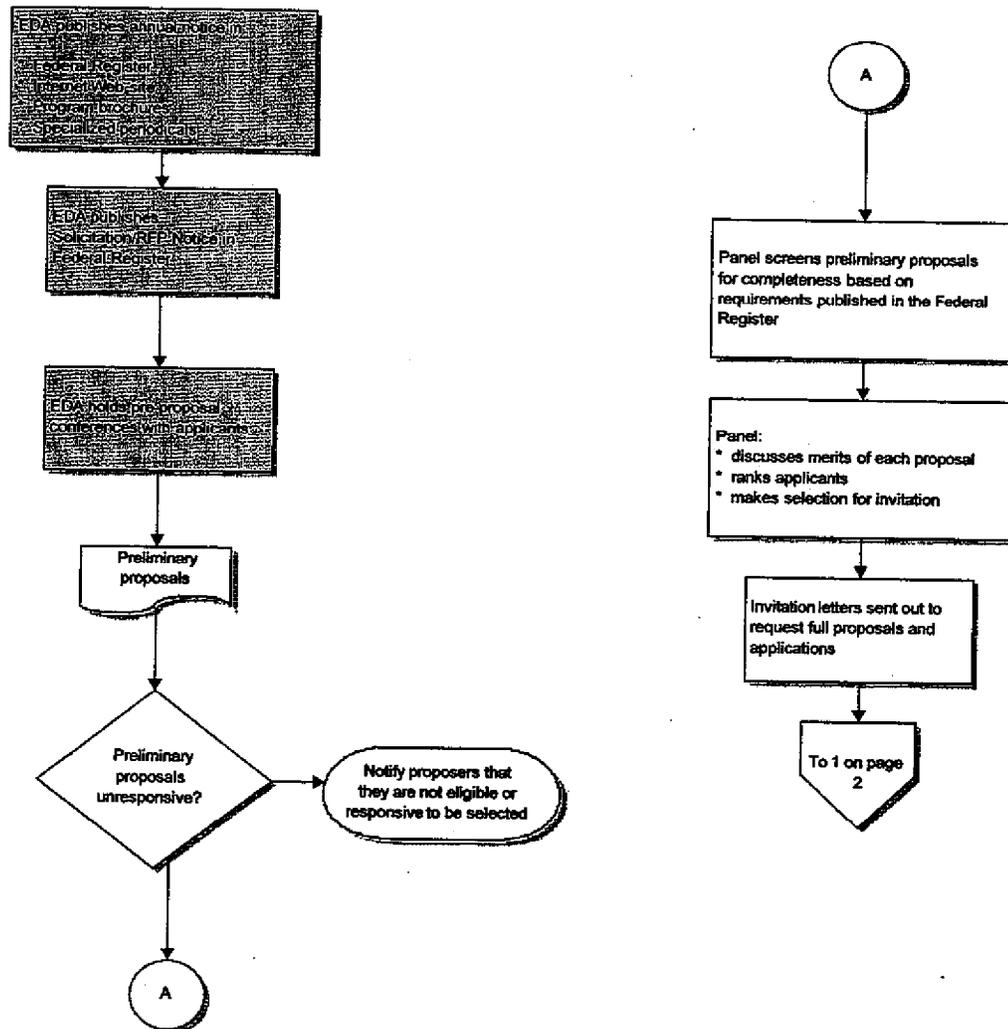
EDA Regional Office Procedures for Solicitation, Review, and Selection of Awards



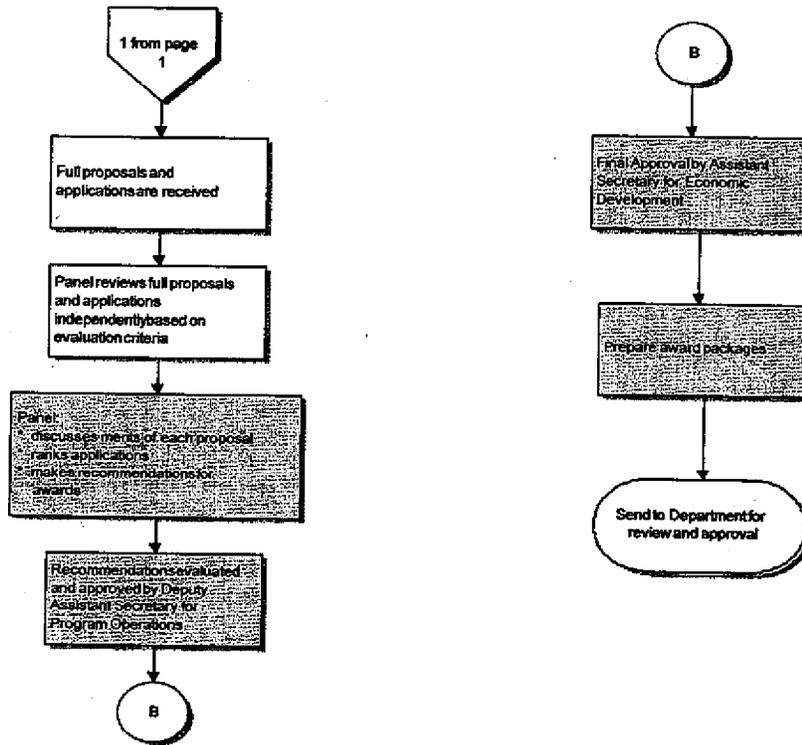
Appendix I
Page 2 of 2



EDA Procedures for Solicitation, Review, and Selection of New National Technical Assistance Awards (Three-Stage Review)



EDA Procedures (Continued)



Appendix III
Page 1 of 4

EDA PROGRAM-SPECIFIC CRITERIA FOR FISCAL YEAR 1997

Program-specific criteria for public works projects (CFDA No. 11.300)

Program-specific criteria for fiscal year 1997 public works projects included assisting in the creation or retention of private sector jobs, and in the creation of additional long-term employment opportunities. Additional criteria for 1997 public works projects included whether the proposed project:

- Is supported by significant private sector investment;
- Maximizes the amount of local, state, or other federal funding that is available;
- Is likely to be started and completed in a timely fashion; and
- If located in an economic development corporation with a stable economy and little distress, has an employment plan that explains how new employment opportunities will be provided for residents of nearby highly distressed redevelopment areas.

Program-specific criteria for technical assistance projects (CFDA No. 11.303)

Program-specific criteria for fiscal year 1997 technical assistance projects included whether the project:

- Strengthens the capability of state and local organizations and institutions, including non-profit development groups, to undertake and promote effective economic development programs targeted to people and areas of distress;
- Benefits distressed areas;
- Diversifies distressed economies;
- Demonstrates innovative approaches to stimulating economic development in depressed areas;
- Is consistent with the EDA-approved Overall Economic Development Program for the area in which the project is located; and
- Presents a reasonable, itemized budget.

Appendix III
Page 2 of 4

Program-specific criteria for public works impact projects (CFDA No. 11.304)

To the extent possible, program-specific criteria included whether the proposed project:

- Improves the economic or community environment in areas of severe economic distress;
- Includes an acceptable plan for hiring the unemployed and underemployed from the project area to work on construction of the project;
- Assists in providing long-term employment opportunities or other economic benefits for the unemployed and underemployed in the project area;
- Primarily benefits low-income families by providing essential community services or satisfying a pressing public need;
- Involves construction that can be quickly started (normally within 120 days after affirmation of the award) and completed (normally within one year), preferably without early construction start; or
- Has significant labor intensity (i.e., the proportion of labor costs to the total project costs).

Program-specific criteria for state and local economic development planning (CFDA No. 11.305)

Program-specific criteria for fiscal year 1997 economic development state and local planning included evaluating the proposal on the following:

- Overall quality;
- Extent to which the proposed planning activities are expected to (1) impact upon the service area's economic development needs, and (2) address the problems of the unemployed and underemployed of the area, including minorities and workers displaced by plant closings;
- The proximity of the performing office to the chief executive (i.e., likelihood that the activities will have a significant influence on the policy and decision-making process);
- Past performance of currently or formerly funded grantees, when applicable;

Appendix III

Page 3 of 4

- The amount of local participation provided as matching share to the federal funds; and
- Other characteristics, such as involvement of private sector businesses and professional groups in the proposed activities, and, particularly for states, the innovativeness of the proposed approach and replicability of the model process or results.

Program-specific criteria for economic adjustment programs (CFDA No. 11.307)

Program-specific criteria for fiscal year 1997 economic adjustment programs included three types: strategy grants, implementation grants, and revolving loan fund (RLF) grants.

Strategy grants. EDA reviewed strategy grant applications to determine whether:

- The applicant organization has the necessary authority, mandate, and capacity to lead and manage the planning process and implementation of the resulting strategy;
- The planning process provides for the representation of public and private sector entities with a contribution to make to the development of the strategy and/or on which accomplishment of the strategic objectives will depend; and
- The proposed scope of work focuses on the specific economic problems to be addressed and provides for undertaking the appropriate research and analysis needed to formulate a realistic, market-based adjustment strategy.

Implementation grants. EDA reviewed implementation grant applications to determine whether:

- Strategies have been completed; however, EDA may in some instances consider funding a project prior to completion of the strategy/plan, if:
 - (1) An appropriate community planning process is underway;
 - (2) Sufficient analysis has been done to show that the proposed project is economically viable and potentially consistent with the evolving strategy; and
 - (3) The proposed project has the support of the community.

Appendix III

Page 4 of 4

- Activities or projects proposed for funding are generally identifiable as integral and priority elements within an adjustment strategy for the eligible area(s) prepared or updated within the preceding two years;
- The strategy addresses the following:
 - (1) An appropriately designed and conducted planning process;
 - (2) An understanding of the economic problems being addressed;
 - (3) An analysis of the industry sectors and the firms within them that make up the area's economic base, and of the particular strengths and weaknesses of the area that contribute to, or detract from, its current and potential economic competitiveness;
 - (4) Strategic objectives that flow from the economic analysis and conclusions and focus on stimulating investment in new and/or expanding economic activities that offer the best prospects for revitalization and growth;
 - (5) Appropriate and necessary resources in the area and elsewhere that have been identified and are/will be coordinated to support implementation of the strategy; and
 - (6) The performance measures that the applicant will use to assess progress toward accomplishing its strategic objectives.
- All individual activities or projects proposed for funding are consistent with one or more of the Economic Adjustment Program objectives.

RLF grants. For implementation grants proposing to capitalize or recapitalize an RLF, EDA also reviewed how the application discusses:

- The need for a new or expanded public financing tool to complement other business assistance programs and services available to firms and/or would-be entrepreneurs in industry sectors and/or locations targeted by the adjustment strategy;
- The types of financing activities anticipated; and
- The prospective capacity of the RLF's organization to work effectively with the business community and other financing providers, to function as an integral part of the overall economic adjustment effort and to manage the lending function.



SEP 22 2000

MEMORANDUM FOR Edward Blansitt
Deputy Inspector General

FROM: Arthur C. Campbell *Arthur C. Campbell*
Assistant Secretary
for Economic Development

SUBJECT: Response to Draft Audit Report on EDA Award Process

The Economic Development Administration (EDA) has reviewed the draft audit report entitled *EDA's Financial Assistance Programs' Award Processes Needs More Competitive Review and Selection Procedures CFDA Nos. 11.300, 11.303-11-305, and 11.307*. We appreciate the careful review by your office and concur with many of your recommendations. EDA's response is attached.

We appreciate the effort that went into drafting the report and the assistance provided by your office throughout this process.

Attachment

**ECONOMIC DEVELOPMENT ADMINISTRATION
RESPONSE TO DRAFT AUDIT REPORT DEN-11580-0-XXXX**

The Economic Development Administration (EDA) commends the Office of Inspector General for completing the difficult task of reviewing EDA's grant programs and identifying areas where they feel improvements could be made. We find many of them to be of benefit to the delivery of the Agency's programs and have already implemented, or are in the process of implementing, a number of them based on earlier draft audit reports.

We reviewed and assessed the recommendations of the draft audit report in the context of the following:

- What is in the best interests of the Agency's constituents, those economically distressed areas EDA has been legally mandated to serve?
- What is the most effective and efficient way for the Agency to select projects that will meet its mission of addressing the economic development needs of the Nation's distressed areas? EDA administers discretionary grant programs in a most effective and cost-efficient manner, with administrative costs currently running less than 7 percent of the Agency's budget.
- What are the identified problems to be addressed by the proposed changes, and what problems might arise if the recommended changes are implemented?
- Are there acceptable alternative ways to meet the Department's desire for competitive selection while also ensuring EDA continues to effectively deliver its programs to the most distressed communities? There are a multitude of programs with a wide variety of missions in the Department of Commerce, and they will not all necessarily be well served by using a uniform approach to grants management¹.

¹ We note that it is EDA's consistent position throughout the years that DAO 203-26 does not apply to EDA because EDA's own grant making authority issued by the Secretary under DOO 10-4 takes precedence. DAO 203-26 was issued by the Assistant Secretary for Administration and prescribes policies for the award and general administration of Department of Commerce grants and cooperative agreements. The authority of the A/S Administration to issue that order came from the Secretary as delegated in DOO 10-5 which provides that "the Assistant Secretary shall ...[a]ct as Grants officer for the Department, and exercise signature authority to award grants and cooperative agreements...." In fact, the A/S Administration does not act as EDA's Grants Officer, and never has; nor has the A/S Administration purported to delegate to the A/S Economic Development that authority. Neither has the A/S Administration, or anyone else, questioned the authority of the A/S Economic Development to act as EDA's Grants Officer. In DOO 10-4, section 4.01 provides that "the Assistant Secretary is hereby delegated the functions, powers, duties, and authorities vested in the Secretary of Commerce by: a. The Public Works and Economic Development Act of 1965, as amended...." We believe that DAO 203-26 applies to those programs for

- A key strength of EDA's discretionary program is its flexibility and focus on the local needs of its constituency of distressed communities. Changes to our process need to enhance and support the strengths of our program.

As background to our responses to the audit recommendations, we are providing overviews of our Regional Office processes and of the National Technical Assistance program processes.

Regional Office Process:

The Economic Development Administration reviewed and assessed its processes in FY 1996, and determined that our customers would be best served by managing the grant selection, approval and management process at the local level, working in partnership with local economic development entities, local and state governments, and with local offices of other Federal agencies. EDA takes a holistic approach in working with its partners to promote economic development through its planning, public works, economic adjustment, and technical assistance programs. EDA supports the efforts of the Nation's distressed communities to develop local Comprehensive Economic Development Strategies (CEDS) that identify:

- the challenges and opportunities facing the community,
- the resources available in the community,
- the direction the area should take to rebuild its economy,
- the specific actions that should be undertaken to implement the proposed economic restructuring, and
- the local, state and Federal resources available to support the restructuring.

The local strategic development process is actually the point at which the initial independent project competitive review takes place, with projects being included in the strategy only if they support it and offer significant potential for positive impact. Once the locally-developed strategy is in place, EDA helps support implementation of many of the specific tasks identified using its comprehensive array of program tools including infrastructure assistance, revolving loan funds and technical assistance grants.

The EDA approach to economic development is based on the understanding that economic

which the A/S for Administration (ASA) is the grants officer, which does not include EDA, although EDA complies with the procedures of the DAO and the policies, standards and procedures for which the ASA is responsible under Section 4.01.e of DOO 10-5, whenever that is consistent with EDA's mission.

development is an inherently local process and the Federal role should be to ensure that distressed communities have the resources necessary to undertake comprehensive economic development programs. The EDA methodology and the necessity for providing additional support to economic development activities in distressed areas was validated by a National Academy of Public Administration (NAPA) study of the Federal role in economic development. The study found that "Many federal programs do try to encourage continuity in state and local economic development practices by providing long-term support for management activities. ARC and EDA give small, core grants to development districts and often require that project grants be listed in the districts' strategic plans." Other agencies do not necessarily develop a broad-based, ongoing partnership with their grant community or require that the proposed activity be part of a comprehensive long-term strategy. As NAPA also found in their study, "Other federal agencies, however, often unintentionally reinforce the short-term thinking about development."

EDA, on the other hand, has always worked closely with local economic development groups and officials. The cornerstone of the EDA partnership in support of distressed area economic development is the CEDS process which ensures that the major players in the local economy will all have their voice heard in the development of their community's strategy for economic revitalization. For thirty-five years, EDA has supported this comprehensive local economic development planning approach through its national network of economic development districts, Indian planning grantees, university centers and recipients of economic adjustment strategies. Whether the cause of the economic challenge is economic stagnation, trade impacts, outmigration, base closures, natural disasters, plant closings or long-term economic deterioration; the first step in the EDA partnership process is the development of a comprehensive, locally-led, economic development strategy. The importance of sound comprehensive local planning to successful economic development was confirmed by the Rutgers University-led studies of EDA's Public Works and Defense Conversion programs which noted the impressive success of EDA's infrastructure investments was due in significant part to the fact that those investments grew out of comprehensive local strategies/plans.

EDA's structure and project development and selection procedures further support its partnership with the Nation's distressed communities. The Agency's primary point of contact with its partners is the Economic Development Representative (EDR) who provides a single point of contact for communities seeking to do business with EDA. The EDR, whether based in the state or providing service out of the Regional Office, helps distressed communities understand and access the programs of the Agency, as well as the requirements of, and resources available from, other state and Federal programs. The EDR works closely with the economic development districts and other planning grantees in the state on the development of their strategies as well as the individual projects to implement those strategies. Without the help of the district and the EDR, many of the small distressed communities lacking full-time professional leadership and staff would be left out of the development process altogether.

After projects have been developed, reviewed and recommended by the local planning group and

EDR, the project proposals are submitted to the EDA Regional Office. Program Specialists then prepare project summaries for distribution to the regional office Project Review Committees (PRCs) for review and decisions as to which projects to recommend for consideration to the Regional Director. Under EDA's recent delegations of authority, the Regional Offices have been given full project development and approval authority and the Regional Directors serve as the Agency's Grants Officers for the great majority of the Agency's programs. The PRC serves as the major competitive selection panel for EDA. It is composed of senior regional office staff who generally meet weekly to review, discuss and evaluate projects based on the criteria set forth in EDA's rules at 13 CFR, Chapter III, and in the Notice of Funds Availability (NOFA) the Agency publishes in the *Federal Register* every year. Major considerations for the PRC as they evaluate projects are:

- the relative level of distress in the project area,
- the potential of the project to support private sector business and job development,
- the impact the project will have on the distressed populations that qualify the area for assistance, and
- the relationship of the project to Departmental and Agency priorities.

While projects are evaluated on the basis of selection criteria, EDA does not limit its consideration of projects to once or twice a year; rather, it has a continuous project review process at the regional PRC level, which includes a comprehensive evaluation of each project. The PRC may recommend that the project be rejected, invited with or without conditions, or may seek additional information on the project before making a recommendation.

When the decision is to invite an application, the proposed grantee then prepares a full application package. Given the cost and time required to prepare a full application and the fact EDA projects are primarily targeted to distressed areas with limited resources, the Agency tries to limit the preparation of full applications to those projects that are selected under the PRC process. While occasionally an invited application is not approved, that generally occurs because of unforeseen technical issues related to the project such as loss of the local share, a permit that cannot be obtained, or a title problem, not because the Agency changes its decision concerning the economic development potential of the grant. The review of the project for compliance with program, environmental, legal and other issues takes place in the Regional Office. When the project has been cleared by all relevant parties, including the OIG, and funds are reserved by EDA's Accounting Division, the Regional Office submits project information to Headquarters to trigger the Financial Assistance Review Board (FARB) review and Congressional notification procedures. When all DOC clearances have been obtained, the Regional Director signs the grant award documents and sends the grant offer to the grantee, thereby formalizing the Agency's approval of the project.

EDA's project development and selection process fulfills the intent and purpose of the Department's competitive discretionary grant process recommendations. Public notice concerning the Agency's program requirements and the availability of funds is provided in the Code of Federal Regulations each year and through the publication of a NOFA in the Federal Register, as noted above. There is also broad discussion of EDA program requirements and funding at each of the Agency's Regional Conferences and through the trade association/public interest group publications the Agency supports through its National Technical Assistance and Research and Evaluation Programs.

The Regional Office PRCs serve as the Agency's independent competitive review panel that provides each project proposal with a fair and equitable review. The PRC members are senior EDA Regional Office staff with many years of economic development experience. They evaluate the proposals on the basis of the criteria listed in 13 CFR, Chapter III, and the NOFA, and competitively select those projects worthy of recommendation to the Regional Director. Only projects recommended by the PRC are considered for approval by the Agency, so the concerns expressed in the draft audit report about the need to justify approval of projects not recommended by the competitive review panel do not apply to EDA's basic programs.

Response to Audit Recommendations:

In the draft audit report, the Office of Inspector General recommends "that the Acting Assistant Secretary for Economic Development ensure that EDA improve the review and selection process for future economic development financial assistance applicants by:

- **keeping better documentation of actions by regional project review committees and National Technical Assistance panels,**

EDA agrees with this recommendation and has implemented improved documentation procedures as a result of the earlier draft recommendations.

- **retaining unsuccessful grant applications for at least three years,**

On page 13, the draft audit report states that copies of rejected proposals were not kept for 3 years, so EDA assumes that the Executive Summary intended to refer to retaining the unsuccessful grant proposals for three years rather than the applications. EDA agrees with this recommendation, and will keep hard copy of rejected proposals in addition to the record of unsuccessful proposals currently recorded in EDA's automated grants management system, OPCS.

- **ranking proposals for financial assistance awards under each program unless EDA can establish an appropriate basis for deviating from that requirement on a program-by-program basis,**

EDA believes that its process of working closely with local economic development groups and developing a CEDS provides a more rigorous approach to "ranking" proposals for financial assistance, since projects are first evaluated by all involved parties on their potential for positive impact in the overall strategy. As discussed earlier, projects are evaluated on the basis of the selection criteria published in 13 CFR Chapter III, plus additional criteria published in the Federal Register. EDA submits that for its local and regional grant programs, improved record-keeping procedures will provide the requisite documentation that verifies the assessment and selection of proposals for projects under a competitive process.

A generic scoring system that could consider all the variables that would be present in all of the proposals reviewed by a PRC would not produce a meaningful result. First, a scoring system could seriously distort the project selection process and would likely result in the selection of weaker projects from wealthier areas that have the resources to prepare impressive applications, even if their need is not as great and their project not as beneficial to distressed populations. EDA's mission is to serve the Nation's highly distressed areas, which are frequently not those areas with the greatest capacity to develop an impressive project proposal, even when they have a strong project that will be of major economic benefit. Assessing project proposals to ensure the best projects in the neediest communities are selected requires the type of expertise found in EDA Regional Office staff combined with the flexibility of a process to consider a wide variety of variables that do not necessarily fit nicely in a rigid scoring system. The EDA approach, which results in proposals either being invited, held for additional information, or returned as unacceptable, does provide for competitive evaluation of proposals and an assessment of which are deserving of funding, even if not involving a score.

Secondly, in any given week the PRC could be looking at one or more public works projects to construct a wide variety of infrastructure; planning proposals to develop CEDS to address any one of a number of economic development challenges; technical assistance proposals to undertake feasibility studies or meet specific technical needs related to any conceivable economic development issue; and economic adjustment proposals to undertake infrastructure, planning or technical assistance projects such as above as well as revolving loan funds that could be addressing economic adjustment issues growing out of trade-related plant closures, disaster recovery, defense cutbacks or base closures, outmigration or any of the other EDA-eligible adjustment situations. It is not possible to introduce a scoring system that could consider all the variables that would be present in all of the proposals reviewed by a PRC and still come out with a meaningful result.

It should also be noted that EDA's project development and selection procedures have been scrutinized over the years by numerous evaluators as well as by Congressional authorizing and appropriating committees, with particular attention being paid to the role

of field personnel and comprehensive local planning in the development of projects. Outside evaluators, such as the Rutgers University led consortium mentioned above, have found the EDA comprehensive approach to economic development to be one of the major reasons for the success of projects funded under the Agency's programs. Congressional oversight and passage of new authorizing legislation has also made it clear there is bipartisan support for the Agency's structure and approach to project development and approval.

- **including individuals from outside the program area on project review committees,**

EDA disagrees with this recommendation. EDA's process begins with a very comprehensive and effective independent competitive project review by individuals outside the program area when local representatives evaluate projects as part of the CEDS process. EDA's continuous project selection process also presents significant logistical and cost implications for the inclusion of outside members. Unlike most grant programs where there are one or two project selection competitions a year, EDA conducts PRC's almost every week during the year. It would not be reasonable to expect an outside reviewer to commit to voluntarily serving on EDA's PRC's every week, with the hours of time spent reading project proposals that entails as well as the meeting itself, and EDA does not have the administrative resources to reimburse an outside reviewer for their time. It would also not be reasonable to have a different outside reviewer every week, since that would place an incredible extra burden on EDA staff in trying to explain EDA's program's and approach to economic development to new reviewers throughout the year. It would also mean there would be no knowledge carryover from PRC to PRC since each week's group of projects would be reviewed by a different panel. We believe that the unique nature of EDA's project selection process is justified by the unique nature of the Agency's mission and the constituencies it serves.

- **separating regional directors from project review committees, and**

EDA agrees that the formal project review process should segregate the Regional Director from the Project Review Committee (PRC) final decision-making on which proposals to recommend. The PRC will be able to independently finalize its recommendations, and submit those recommendations, with supporting rationale, to the Regional Director, who will make the final decision as to which project applications to invite or deny.

EDA also strongly feels, however, that the Regional Directors should continue to be present for the general PRC discussions of the relative merits of the proposals before the PRC's begin their recommendation decision discussions. EDA feels this is important because the Regional Directors gain a much more comprehensive understanding of the merits, shortcomings and issues associated with each proposal when they are present for PRC discussions. The Regional PRC's can include expert professional regional office senior staff representing Engineering, Legal, Environmental, Planning, Civil Rights,

Infrastructure Development, Economic Adjustment, and Operational areas. All the participating professional disciplines join in the decision to recommend an application be invited or denied. This system has worked very well for over 30 years, and continues to be an effective process. During the OIG-EDA discussions of this report, our Chicago Regional Director, C. Robert Sawyer, was most eloquent in pointing out the importance to him of hearing the discussion of the project proposals by his staff. To deny the Regional Director the opportunity to hear the PRC discussion would be to deny them key information from which to make the most effective decisions concerning project selections.

utilizing competitive review procedures for all National Technical Assistance program awards, unless there is adequate written justification for individual noncompetitive renewal awards, based on objective criteria developed to ensure worthiness for continued funding.”

In FY 99, for the National Technical Assistance Program, EDA implemented a review and selection process that:

- fully documents actions by National Technical Assistance review panels;
- retains unsuccessful proposals for at least three years;
- ranks proposals for financial assistance awards based on the selection criteria published in the Federal Register Notice; and
- includes individuals from outside the program area on project review panels.

Effective in FY 00, EDA expanded the competitive selection process for the National Technical Assistance Program to also include Information Dissemination projects. A Federal Register Notice setting forth the competitive selection process and criteria for Information Dissemination awards was published on June 5, 2000.

We disagree, however, with the observation in the draft audit report that “EDA had no procedures requiring reviews of the awards for their past program or financial performance, and as result, the grant files of the respective awards did not contain a basis for renewal or justification for the continuation of a non-competitive award.” Under EDA’s established procedures, the project brief included in the grant files for each EDA award contains the information the draft audit report states is needed in the grant files.

In summary, the EDA approach to project development and selection has been virtually the same for its thirty-five year history and has been recognized approvingly by numerous program evaluations as well as Congressional re-authorization of the Agency. This approach is documented in Agency policy, directives, regulations and *Federal Register* notices, and is

effective at meeting the needs of the Nation's economically distressed communities. We have no desire to throw out a proven, effective approach that has been reviewed and cleared repeatedly by top officials of the Agency, Department and OMB in favor of an approach that is designed to meet the needs of other programs with different Federal goals and objectives.

We also would like to offer a few comments on specific portions of the draft audit report that we feel require clarification/correction. Following is a listing of those items.

- Page 1, paragraph 2, second to last sentence: should state that EDA "administered" the five programs discussed, since EDA no longer administers the PWIP program and other program changes have been enacted with the new authorizing legislation.
- Page 2, second to last paragraph: The Federal Grant and Cooperative Agreement Act appears to be misquoted, since it only states that one of its purposes is to maximize competition to the extent practicable, but does not go into any greater detail. Perhaps OMB guidance or another document is the basis for the OIG's additional assertions in that paragraph.
- Page 6, first bullet: we are uncertain as to why the OIG mentions reviewing the 1998 EDA reauthorization of/amendment to PWEDA and regulations at 13 CFR Chapter III when the report only covers FY 1997 and no further mention is made of the new legislation and regulations.
- Page 12, bullet four: the PRC does not conduct an evaluation of each full application. When the application is submitted, it is reviewed by the appropriate parts of the Regional Office to ensure that it meets all legal, regulatory and programmatic requirements before being forwarded to the Regional Director for signature.
- In FY 97, the competitive review process for National Technical Assistance grants established in the Federal Register Notice, involved a three-phase review process, not a two-phase one, as stated on page 12 of the Draft Audit Report and in one of the findings on page 13. The error is also reflected in Appendix II.
 - ▶ In the first phase, a review panel evaluated the **preliminary proposals** and made a decision to invite full proposals, generally two in each subject area. Because of time constraints, EDA also invited an application at the same time.
 - ▶ In phase two, a review panel evaluated the **full proposals** (but not the applications) and recommended only one in each subject area for further funding consideration.
 - ▶ In phase three, for successful proposals only, the National Technical Assistance

Program staff reviewed all elements of the **application** package, documented that all the required standard forms were present, prepared the award package, and submitted it for review—including Departmental/FARB and OIG clearances—and approval by the Assistant Secretary for Economic Development.

- The title of Appendix I should be changed to indicate that it describes the Regional Office selection process only.
- Appendix II should be corrected to show the three-phase process used for National Technical Assistance project selection in FY 97, and project approval by the Assistant Secretary for Economic Development (not the Department).

Once again, we appreciate your efforts in reviewing processes and your suggestions for improvement.